CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments – Business Plan ITEM NUMBER: 6

ATTACHMENT(S): 3

ACTION: X DATE OF MEETING: June 2, 1999

INFORMATION: ____ PRESENTER(S): Mr. Desrochers & Mr. Clerc

EXECUTIVE SUMMARY

The Alternative Investment policy, approved by the Investment Committee at the April 7, 1999 meeting, requires the Alternative Investment portfolio to be managed in accordance with an annual business plan. The primary objective of the Alternative Investment Business Plan will identify how CalSTRS will address the following key issues:

- Implementation of strategic allocation to Alternative Investments over the next three to five years.
- Effective manager selection to achieve CalSTRS' goal to have a more meaningful investment with the best performing partnerships.
- Purchase of secondary interests
- Implementation of the co-investment program.

In Attachment 2, Pathway Capital Management discusses trends in the funding of alternative investments and expected investment returns.

<u>Recommendations</u>:

1. Staff recommends Investment Committee approval of the 1999 Alternative Investment business plan by adopting the attached resolution (Attachment 3).

2. Staff recommends Investment Committee approval to contract with alternative investment advisors and/or independent fiduciaries to implement the co-investment program. The contracts will be exempt from disabled veterans contract participation goal requirements. (Attachment 3).

Pathway Capital Management has reviewed the proposals and concurs with Staff's recommendations for approval.

Attachment 1
Investment Committee – Item 6
June 2, 1999

California State Teachers' Retirement System
Alternative Investments
Business Plan

I. Portfolio Role and Purpose

The primary objective of the Alternative Investment portfolio is to provide enhanced returns over those of the public market. The strategy is to invest in limited partnerships including venture capital, leveraged buy-outs, and special situations, and to purchase secondary interests and co-investments.

II. Historical Overview

The decision to design an Alternative Investment program for CalSTRS was made after receiving a positive recommendation from the general pension consultant after conducting a comprehensive asset allocation study. Five percent of CalSTRS' assets are allocated to the Alternative Investment program.

The foundation for CalSTRS' Alternative Investment program was established with the development of the Policy and Procedures Manual in 1988. The manual prescribed a diversified program of investing in limited partnership interests in venture capital, leveraged buy-out, and special situation funds. The first alternative investment commitment was made in April 1988.

In 1993, the Investment Committee approved an international component for the Alternative Investment portfolio. The private equity markets in Europe and Asia were still relatively young, and the anticipated growth of the economies of these regions suggested a higher expected rate of return than for domestic partnerships. CalSTRS made its first international commitment in the first quarter of 1994 to a UK fund, and currently has commitments to six international partnerships.

In June 1998, the Investment Committee reviewed and approved the revised Alternative Investment Policy and Procedures Manual. Enhancements to the Alternative Investment program were approved as follows:

- Proposed targets and ranges were identified for each market segment of the portfolio. Detailed definitions of market segments are provided in Exhibit 1.
- The Investment Committee delegated authority to staff to make investments meeting specific criteria.

In August 1998 the Investment Committee approved a tiering model which was developed by staff to facilitate management of the Alternative Investment portfolio. The purpose of the tiering model is to create a tool that will assist staff in the on-going monitoring and due diligence process of the Alternative Investment portfolio. Specifically, the tiering model will encourage staff to guide the portfolio toward future investments in its best performing partnerships, and will direct the selection of new partnerships with specific quantitative and qualitative objectives. This is accomplished through an on-going monitoring and due diligence process that categorizes CalSTRS' partnerships by tiers. A list of CalSTRS' partnerships with their respective scores will be presented for discussion in closed session.

1. Tier one partnerships are the best performing partnerships with superior investment returns and offering potential for co-investment opportunities.

2. Tier two partnerships are partnerships that do not have a long enough track record to be effectively rated, or partnerships with average investment performance. Improved performance may qualify a Tier two partnership to be moved to the Tier one category.

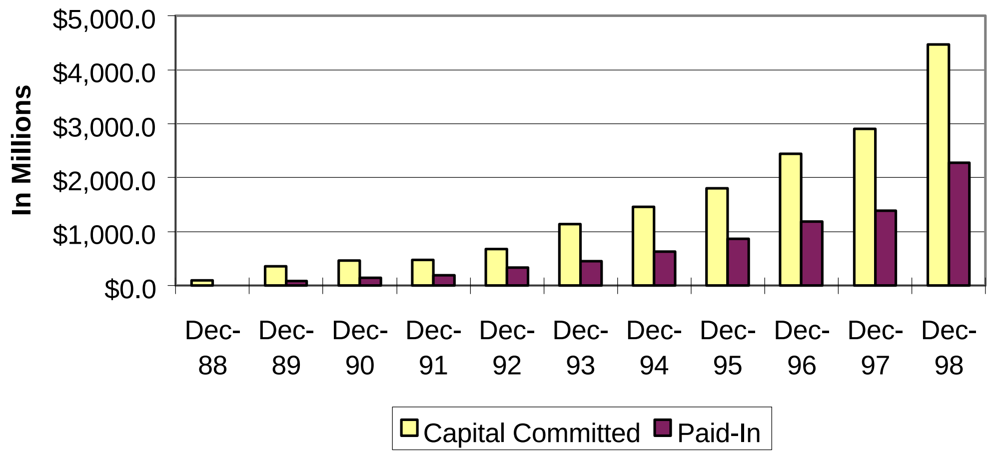
3. Tier three partnerships are partnerships with poor investment performance. It is unlikely that staff would consider follow-on investments with partnerships that fall into this category.

In February 1999, the Investment Committee approved a benchmark for the Alternative Investment portfolio. Performance will be compared with the dollar weighted return for the Russell 3000 plus 500 basis points – adjusted for the latest three years contributions at the 3-month T-bill return. The Committee directed Staff to continue to utilize the Venture Economics Vintage Year Database to determine how well specific managers are performing.

III. Current Status

As of December 31, 1998, CalSTRS has committed $4.5 billion to 75 partnerships and two co-investments. The portfolio has an estimated market value of approximately $2.3 billion. As shown below, approximately $2.3 billion, or 51% of commitments, has been funded.

Alternative Investment Portfolio
Commitment and Funding History
December 31, 1998



The growth in the amount committed to new partnerships has accelerated along with the size of the new funds. The growth in fund size is the result of a combination of the increased valuation of the domestic equity market and the type of funds considered. The growth in the amount funded reflects the seasoning of the limited partnerships in CalSTRS' portfolio as they enter the prime investment cycle.

IV. Performance Measurement

There is no universally recognized benchmark for alternative investments. Therefore, during 1998, Staff developed a customized benchmark for comparative measurement to the alternative investment asset class. The custom benchmark was designed to establish a clear performance objective and to measure the ongoing progress of the investment program.

The customized benchmark is a blended, dollar-weighted[1] benchmark comprised of 1) the Russell 3000® Index ("Russell 3000") and; 2) a Treasury bill return for capital contributions less than three years old. A 500 basis point premium is added to this blended benchmark to account for the additional illiquidity and risk involved with private equity. An example of the calculation and a more detailed description of the model is provided in Exhibit 2. CalSTRS will continue to utilize the *Venture Economics' Vintage Year Comparison* by generation, such as the median IRRs and/or upper quartile IRRs to measure the performance of each of the individual partnerships in the portfolio.

[1] Because a time-weighted rate of return ("TWRR") and a dollar-weighted rate of return are not directly comparable, the customized benchmark incorporates a dollar-weighting adjustment in its calculation. In other words, the customized benchmark assumes CalSTRS would have invested the same amount of capital into the Russell 3000 as it actually did into alternative investments over the same time period.

To generate the customized benchmark, an IRR is calculated for a cash flow stream comprised of the investments made to the CalSTRS alternative investment portfolio and a hypothetical terminal cash flow value is created by compounding those investments by the return of the Russell 3000. However, contributed capital less than three years old is instead calculated with a growth factor that is based upon the applicable Treasury bill rate.

The following table provides a summary of the results of the benchmark compared against the net IRR of the CalSTRS alternative investment portfolio over the same time periods.

Dollar-Weighted Russell 3000 Benchmark Comparison
To the CalSTRS Alternative Investment Portfolio as of 12/31/98

	3 Year	**5 Year**	**10 Year**	**Inception**
CalSTRS Net IRR	30.80%	26.90%	22.10%	22.10%
$-Wghtd. R-3000+500bpt.[2]	19.64%	19.95%	21.70%	21.70%

CalSTRS will also continue to utilize median IRR data for alternative investment partnerships with similar strategies formed during the same vintage year. The vintage year median IRRs of similar partnerships will continue to be reported on a generational basis. Since data is available on specific alternative investment strategies, this benchmark can provide additional value by comparing it against the most relevant portions of the CalSTRS alternative investment portfolio. The following table provides a summary of the results of the Venture Economics Vintage Year Database compared against the net IRR of the CalSTRS alternative investment portfolio since inception through December 31, 1998.

Venture Economics Vintage Year Database Benchmark Comparison
To the CalSTRS Alternative Investment Portfolio as of 12/31/98

Venture Capital	CalSTRS' Net IRR	Median IRR Vintage Year Comparison
1989 Generation	11.6%	10.1%
1990 Generation	31.8	9.6
1992 Generation	37.3	14.1
1993 Generation	33.0	11.7
1994 Generation	4.4	20.0
1995 Generation	44.8	17.2
1996 Generation	40.7	10.0
1997 Generation	15.4	-0.4
1998 Generation	-6.8	-9.5

[2] With adjustment for Treasure bill return for cash flows less than three years old.

Special Equity	CalSTRS' Net IRR	Median IRR Vintage Year Comparison
1987 Generation	58.4%	10.9%
1988 Generation	14.5	12.4
1989 Generation	18.9	15.8
1990 Generation	16.6	14.9
1991 Generation	17.8	14.9
1992 Generation	28.2	19.4
1993 Generation	24.3	18.1
1994 Generation	33.7	15.7
1995 Generation	12.5	5.0
1996 Generation	38.8	11.5
1997 Generation	11.8	-5.7
1998 Generation	-9.7	-15.6

The tables above show that the CalSTRS alternative investment portfolio has outperformed the median IRR vintage year comparison in most generations.

V. Key Issues

1. **Manager Selection**: One of the major issues facing institutional investors is the challenge to make large enough investments to satisfy portfolio allocations to Alternative Investments. The top performing limited partnerships are typically oversubscribed prior to marketing the fund. General Partners of these funds "scale-back" limited partner commitments in order to accommodate numerous commitments. CalSTRS is developing stronger relationships with its Tier 1 General Partner teams in an effort to be a more significant investor with larger commitment amounts. Stronger relationships are being developed by:

   - Active participation on advisory boards of most key partnerships.
   - Visiting general partners more often than in the past.
   - Encouraging general partners to visit CalSTRS more often.
   - Expressing strong interest in becoming a co-investor and purchaser of secondary interests with the General Partners.

   Further, Staff and the Alternative Investment Advisor are actively using the tiering model in the on-going monitoring of investments and due diligence review of potential investments. As mentioned earlier, the tiering system encourages Staff to steer the alternative investment portfolio towards future investments in its best performing managers. This is accomplished through an on-going monitoring and due diligence process that categorizes CalSTRS' managers and partnerships by tiers. Tier 1 managers are CalSTRS' best performing managers. Ideally, Staff would like to maximize the amount of capital available to invest with these managers going forward.

New manager selection is based on the same screening criteria that is used to tier existing portfolio managers. Staff is negotiating minimum commitments of 10% to any new managers. This is an important aspect of the implementation of the program in order to achieve the allocation objectives of the fund while maintaining a manageable number of partnerships and getting a larger pro-rata share of co-investments offered by the General Partners.

2. **Secondary Interests**: Competition is fierce for secondary interests. These investments are usually conducted through an auction process and are awarded to the highest bidder. Prospective investors include institutional investors, funds of funds, and the limited partner base. Staff has informed its current General Partners that CalSTRS is actively pursuing secondary interest opportunities. Additionally, staff is negotiating pre-emptive rights for existing Limited Partners in new limited partnership agreements.

3. **Co-investments**: The primary purpose of the co-investment program is to enhance the Alternative Investment portfolio return. Co-investments will be made side-by-side with the limited partnerships. The Investment Committee approved the revised co-investment policies at the April 1999 Investment Committee Meeting.

   In order to effectively implement this program, it will be necessary to develop a pool of qualified contractors to fulfill the alternative investment advisor and/or independent fiduciary role established by the co-investment policies. The contractors will review the due diligence conducted by the general partners on the proposed co-investment to ascertain that it is appropriate. The contractors will recommend other areas of due diligence investigation where appropriate. The contracts will be evergreen in nature, and the price paid for each transaction review would be determined on a case by case basis.

   The services provided by the contracts require the highest degree of specialized industry knowledge and expertise. The background and expertise of the principals assigned to the CalSTRS' contract will be critical to staff's decision to award a contract. The contractors will essentially be providing a "product of the mind." As a result, staff is requesting approval to exempt these contracts from the disabled veterans participation requirements.

4. **International Investments**: Staff and the Alternative Investment Advisor believe that international investing should continue to represent a meaningful portion of the alternative investment portfolio. The fundamental assumption is that these investments have the potential to provide superior returns. Staff will monitor the investment environment and evaluate opportunities with the same criteria and guidelines that are used to select the best performing investments in the domestic market.

VI. Diversification Criteria

The following portfolio ranges and targets were reviewed and approved at the April 6, 1999 Investment Committee meeting concurrent with the revision of the Alternative Investment policy.

Alternative Investments Sub-Category	Proposed Ranges	Proposed Targets	Actual
Buy-out	**50-70%**	**60%**	**61.9%**
Venture capital	**10-20%**	**16%**	**14.3%**
Debt related	**0-10%**	**2%**	**6.4%**
Equity expansion	**5-15%**	**7%**	**5.2%**
International Buy-Out (Canada and Continental Europe)	**10-20%**	**15%**	**12.2%**
Total		**100%**	**100%**

VII. Staffing Issue

Two Investment Officer positions were approved for the Alternative Investment program at the April 1999 Investment Committee meeting. Hence, no additional staff will be necessary for the next year.

VIII. Reporting

The following changes to the reporting process are proposed to provide appropriate information to the Investment Committee regarding overall investment activity and monitoring of the successful implementation of the Business Plan. Samples of the proposed monthly and quarterly reports are provided on the pages which immediately follow.

- Monthly: No changes to the current format
  Report information on a five year reporting period. Co-investments and secondary interests are reported as separate items.

- Quarterly: Includes monthly report and decisions made under delegated authority
  Summary of Allocations and Targets
  Summary of portfolio by market segment

Exhibit 1

Definitions of Market Segments

Last year, Staff and Pathway developed allocation targets for the major market segments of the CalSTRS alternative investment portfolio. These targets were developed with the understanding that the alternative investment strategy would remain flexible to allow for adjustments based on external factors, such as the availability of quality investment opportunities, the flow of capital into the private equity asset class, and the status of the economic and business environments.

Therefore, when considering available strategies, the quality of the management team of any given opportunity is always of paramount importance in the investment decision. While an investment in a particular strategy may provide increased diversification for the portfolio, an investment will not be completed if a high-quality management team with clearly demonstrated expertise is not available. In fact, because of the importance placed on the quality of the management team, on occasion, the short-term diversification of the portfolio may be sacrificed in order to accommodate the addition of an investment opportunity with an exceptional management team.

The five market segments identified in the 1998 investment plan included buyouts, venture capital, debt-related, equity expansion, and international investments. Although the entire alternative investment market was narrowed down to these five categories, it is important to note that many investment strategies exist within each of the segments as well. Consequently, the CalSTRS alternative investment portfolio will ultimately consist of a variety of investment categories and a variety of investment strategies within those categories. This will result in continued diversification of the alternative investment portfolio.

Buyouts/Acquisitions

The largest segment of the U.S. alternative investment market is buyouts, comprising approximately 70% of the U.S. alternative investment market (defined by committed dollars raised over the last eight years), or 45% of the entire alternative investment asset including international funds. Because of this dominance, the CalSTRS alternative investment portfolio will continue to be weighted by capital invested towards these types of investments More importantly, the risk and reward characteristics of buyout/acquisition investments make them well suited to play a dominant role in the CalSTRS alternative investment portfolio

According to the *1998 Investment Benchmarks Report for Buyouts and Other Private Equity*, as of December 31, 1997, all funds formed from 1976-1997 have generated a 20.4% cumulative IRR since inception when measured by a pooled average[3]. More recently, funds formed from 1990-1997 have generated a 22.3% cumulative IRR since inception when measured by a pooled average. The Venture Economics average median IRR and upper quartile IRR for mature partnerships formed in each generation tracked is 18.8% and 26.0%, respectively.

[3] The pooled average IRR is a method of calculating an aggregate IRR by summing cash flows together to create a portfolio of cash flows and calculating an IRR on the portfolio's cash flows.

Although CalSTRS is targeting 60% of its alternative investment portfolio into buyouts, these partnerships will utilize varying investment strategies. For example, there are at least four distinct buyout/acquisition strategies, each of which could be pursuing investments in markets of different size and in different types of companies. The investment strategies are listed below.

Leveraged Buyout ("LBO")	The LBO is used to purchase a company, subdivision, or subsidiary of a company that is currently undervalued or under-performing with the use of leverage. Companies typically sell low or non-technology products in industries not subject to wide profitability swings.
Growth Buyout ("GBO")	The focus of GBOs is typically on building a small company into a much larger, rapidly growing company. Attractive candidates for GBOs must be able to capitalize on key competitive advantages they may have to increase revenues and cash flow through market share gains, rapid market growth, distribution or product line expansion, and/or market consolidation.
Platforms/Add-ons	Platform investing is a growth strategy which involves the acquisition of a company that will be the base (or platform) from which future acquisitions will be made. The platform is similar to the GBO in that both are considered high-growth investment strategies. However, platforms rely on growth through industry consolidation or acquisitions.
Recovery/Turnarounds	The acquisition of equity and/or equity related securities in financially distressed companies in conjunction with the restructuring or recapitalization of a company. Typically, control is taken.

Venture Capital

The next largest segment of the alternative investment asset class is venture capital. Venture capital comprises approximately 21% of the estimated composition of the U.S. alternative investment asset class (or 13% of the entire alternative investment asset class including international funds). Unfortunately, CalSTRS is limited by the size of the market when determining how much capital it will be able to commit to this segment over the long-term. Specifically, CalSTRS will be limited to committing capital to only the largest venture capital funds, or perhaps to those funds where a commitment by CalSTRS will ultimately lead to larger commitments in future funds. Most venture capital funds are too small for CalSTRS to consider in that any investment will have little impact on the performance of the overall CalSTRS alternative investment portfolio, let alone the CalSTRS total fund.

According to the *1998 Investment Benchmarks Report for Venture Capital*, as of December 31, 1997, all venture capital funds formed from 1969-1997 have generated a 15.0% cumulative IRR since inception when measured by a pooled average. However, more recently formed funds have, on average, performed much better. For example, venture capital funds formed from 1990-1997 have generated a 31.9% cumulative IRR since inception when measured by a pooled average. The Venture Economics average median IRR and upper quartile IRR for mature partnerships formed in each generation tracked is 9.9% and 19.6%, respectively. Venture capital related investment strategies include the following.

Venture Capital – Seed	Small amount of capital provided to an inventor or entrepreneur to prove a concept.
Venture Capital – Early	Includes startups (financing for use in product development and initial marketing) as well as "Other Early Stages" (companies receiving venture capital for the first time that have already developed a product).
Venture Capital – Middle	Working capital for the initial expansion of a company that is producing and shipping. The company probably has growing accounts receivable and inventories, but still may not be showing a profit.
Venture Capital – Late	Major expansion of a company whose sales volume is increasing, and that is breaking even or is profitable. Funds are utilized for further plant expansion, marketing, working capital or an improved product. Also includes bridge financings for companies expecting to go public within one year.
Venture Leasing	The leasing of equipment to development stage and emerging businesses in exchange for above average lease yields and possibly equity participation.

Debt Related

Debt related investment opportunities, including subordinated debt for private placements as well as buyout related transactions, and distressed debt investments comprise 4.4% of the estimated composition of the alternative investment market (or 2.8% including international funds). Generally, because of the expectation that the investor is taking on less risk, debt related investment strategies produce lower returns than equity investments. The Venture Economics average median IRR and upper quartile IRR for mature partnerships formed in each generation tracked is 11.1% and 14.2% respectively.

Subordinated Debt Expansion Financings	Provides financing principally as growth capital for successful businesses.

Subordinated Debt For Acquisitions	Provides financing principally for acquisitions and recapitalizations.
Distressed Debt	"Vulture fund" investment strategy. Purchase discounted debt of a distressed company prior to a restructuring.

Equity Expansion

Equity expansion investments are defined as investments involving the purchase of substantial, long-term minority equity positions in undervalued privately or publicly held companies. This strategy is similar in style to later stage venture capital investments, except that equity expansion investments are generally larger, and are typically less technology oriented, and are usually not made in a syndicate. These small and medium sized companies have grown from the start-up stage to profitability and are poised for continued rapid growth.

Equity expansion comprises approximately 6% of the estimated composition of the alternative investment asset class (4% including international funds). Performance is closely correlated to later stage venture capital funds that have a low exposure to technology investments. Although the number of funds that primarily target equity expansion are few, they are generally larger in size than venture capital partnerships.

International Investments

International investments can include any of the investment strategies mentioned above, but focus their activity outside of the United States. CalSTRS has targeted 15% of its alternative investment portfolio into international investments.

Unfortunately, return data for international private equity continues to be less available and less reliable than return data on the U.S. alternative investment market. Most of the data is still limited to continental Europe with a strong emphasis on the United Kingdom. Nevertheless, *Europe Private Equity Update*[4] recently reported that mature pan-European private equity funds generated a pooled net IRR of 11.6% since inception. Top quartile funds have generated a 25.5% return since inception.

[4] April 1999 issue. Published by European Private Equity and Venture Capital Association. Return data is through June 30, 1998. Mature buyout funds are older than two years and mature venture capital funds are older than four years.

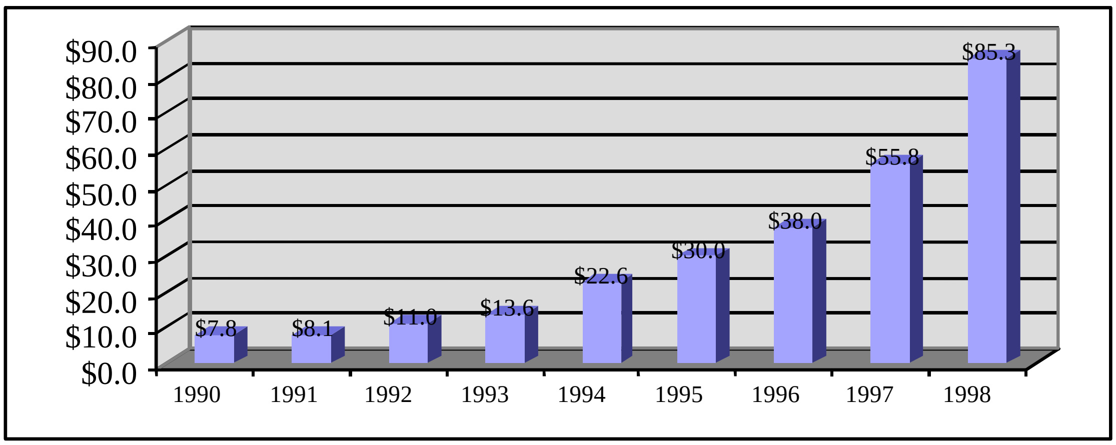
Attachment 2
Investment Committee – Item 6
June 2, 1999

Trends in the Funding of Alternative Investments

U.S.-based private equity limited partnerships raised $85.3 billion in capital commitments during 1998. This represents an increase of approximately 53% in funding over the previous annual record of $55.8 billion, set in 1997. According to *The Private Equity Analyst*, 289 private equity funds closed in 1998, up from 271 in 1997. The following chart illustrates the amount of private equity capital raised annually over the previous eight years. As indicated in the graph, capital commitments to this asset class have increased consistently.

Private Equity Commitments
(in billions)

Figure 1

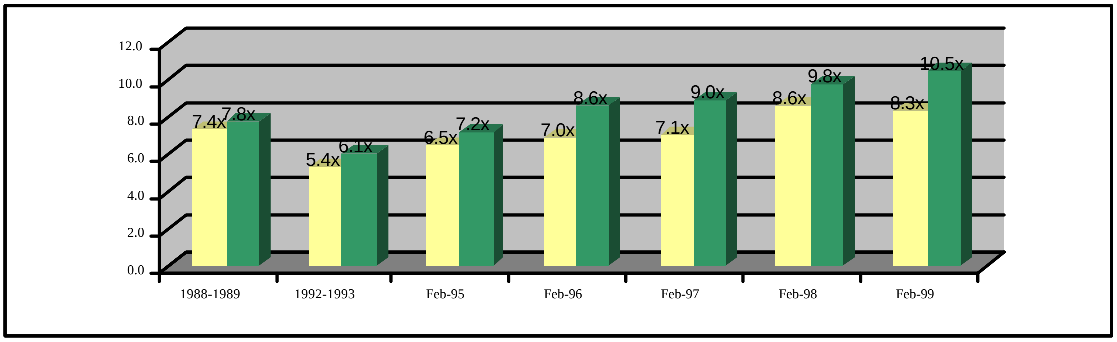


Source: *Private Equity Analyst*

The substantial increases in capital in the industry have placed upward pressure on prices being paid by general partners for portfolio companies. Higher pricing can lead to lower private equity returns. However, according to a recent survey conducted by *Buyouts*, overall purchase price multiples may have begun to level off, ending a six-year period of consistently increasing multiples. Specifically, financial buyers paid an average of 8.3 times EBIT (earnings before income and taxes) for their deals during the year ending February 28, 1999, down slightly from the average of 8.6 the previous year. (See Figure 2 below).

Purchase Price Multiples

Figure 2



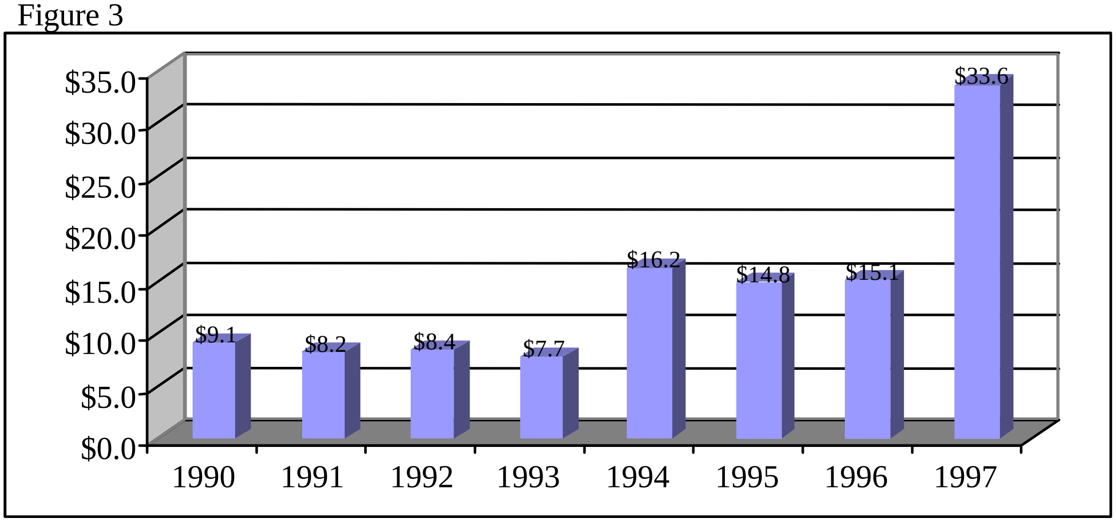
Source: *Private Equity Analyst*

Further, increased competition among institutional investors has made it difficult to invest in many of the highest quality partnerships. This can also lead to lower returns as the general partners of these organizations are provided with substantial leverage in negotiating terms with the limited partners.

A significant portion of commitments made to alternative investments continues to be directed toward the international markets. Figure 3 illustrates the large increase in commitments to this segment of the alternative investment market beginning in 1994 and peaking in 1997 (1998 data remains unavailable). International funds represent 38% of the total capital raised in 1997 for private equity investments. Two-thirds of the international capital was committed to Europe.

Capital Commitments to International Funds
(in billions)

Figure 3



Source: *Private Equity Analyst*

CalSTRS' strategy in this highly competitive environment should be to invest cautiously and opportunistically across all alternative investment types. Most importantly, CalSTRS will need to continue investing with the highest quality general partner groups with proven investment records and access to high quality investment opportunities. In markets such as this one, it is important not to lower qualitative standards in order to achieve investment targets.

The performance of the portfolio demonstrates that CalSTRS has generally invested with high-quality general partner groups. CalSTRS should continue its strategy of building relationships with its top-tier general partner groups with the goal of placing a greater amount of capital with its best managers. As stated above, increased competition among institutional investors in the current environment has created a shortage of space in the highest quality opportunities. Therefore, good relationships are becoming an ever increasingly important aspect of private equity investing.

Expected Return of Alternative Investments

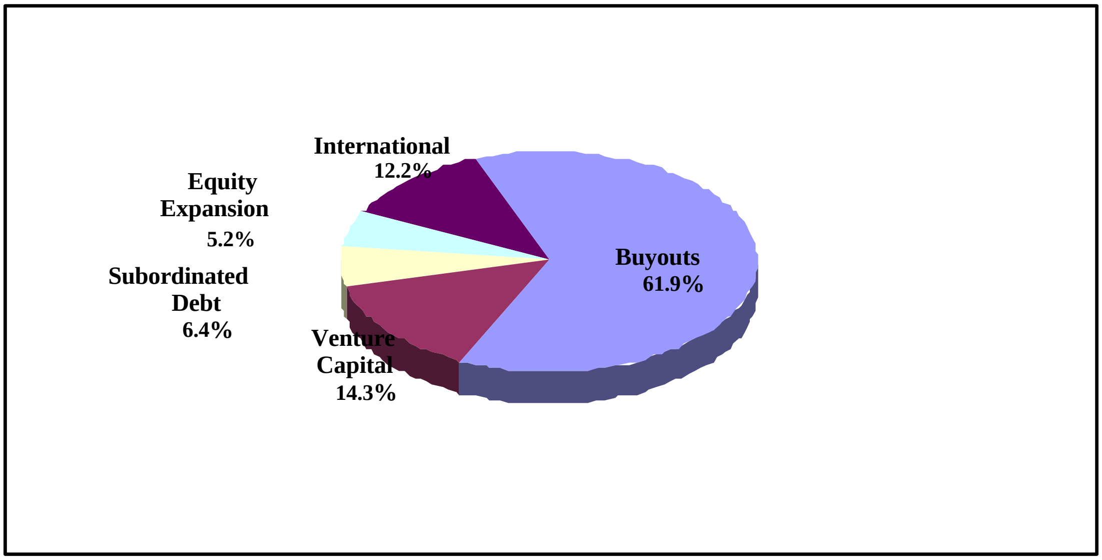
Alternative investments are expected to provide incremental return over the public equity markets over the long-term. The magnitude of this margin depends on how the portfolio is configured. Listed below are several examples of how portfolio structure can impact expected performance:

- An alternative investment portfolio that is weighted in the favor of equity related instruments will likely outperform a portfolio weighted in favor of debt-orientated alternative investments over the long-term;
- A portfolio with a substantial venture capital component would be expected to outperform one that is under-weighted in venture capital over the long-term;
- A portfolio with a substantial commitment to co-investing alongside portfolio partnerships should out-perform a portfolio without co-investments.

Of course the analysis of expected returns cannot be done absent due consideration for the additional risks that are being taken. A portfolio that is 100% venture capital, for example, would be much too volatile for most institutional investors. Additionally, while it may seem like a portfolio heavily weighted in international alternative investments should provide increased long-term expected returns, the lack of adequate alternative investment infrastructure in the lesser developed foreign countries brings added risks for which there may be little or no compensating premium in return. Instead, a focus on the countries with a more advanced alternative investment infrastructure is necessary.

The CalSTRS portfolio is a conservative portfolio consisting primarily of acquisition related equity investments, but with moderate exposure to debt-related investments, venture capital investments, and international investments as the following chart indicates.

CalSTRS Exposure to Alternative Investments
At December 31, 1998



This conservatively structured alternative investment portfolio has performed well for CalSTRS. This would indicate that substantial changes in the overall structure of the CalSTRS alternative investment portfolio are probably not necessary.

It is important to note that the superior returns expected of alternative investments are over the long-term. This is due to the way in which alternative investments are structured. Each partnership investment typically goes through three distinct phases: the investment phase, the development phase, and the maturity/liquidation phase. The investment phase of each fund investment may take from three to five years, the development phase may take an additional five years and the maturity and liquidation phase may take an additional five years. The total length of time it takes to invest and liquidate an alternative investment fund is approximately 10 to 12 years, depending on how much these phases overlap each other. Consequently, while a significant amount of information indicating the progress and profitability of each alternative investment fund is tracked throughout its life, the actual performance cannot be determined until the latter part of its life.

Attachment 3
Investment Committee - Item 6
June 2, 1999

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

Subject: Alternative Investments Business Plan

Resolution No. ________________

WHEREAS, the Investment Committee of the Teachers' Retirement Board is responsible for reviewing the annual business plan; and

WHEREAS, the Investment Committee has reviewed the Alternative Investments Business Plan and heard oral presentations from Staff and Pathway Capital Management; and

WHEREAS, effective administration of the co-investment program requires contracting with alternative investment advisors and/or independent fiduciaries;

WHEREAS, Staff and Pathway recommend that these contracts are exempt from disabled veteran contract participation goals;

RESOLVED, that the Investment Committee of the Teachers' Retirement Board approves the Alternative Investments Business Plan, and authorizes Staff to enter into contracts with alternative investment advisors and/or independent fiduciaries which are exempt from disabled veteran contract participation goals.

Adopted by:
Investment Committee

on ______________________________

____
James D. Mosman
Chief Executive Officer